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United States Department of Agriculture
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to present the 2006 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). I am accompanied by the Administrators of the three agencies that comprise our mission area: Ellen Terpstra, Administrator of the Foreign Agricultural Service; James Little, Administrator of the Farm Service Agency; and Ross J. Davidson, Jr., Administrator of the Risk Management Agency. Also with us is Dennis Kaplan, Deputy Director of the Office of Budget and Program Analysis.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2006 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to any questions you may have.

Mr. Chairman, the programs and services of the FFAS mission area provide the foundation for the Department's efforts to "enhance economic opportunities for American agricultural producers", one of the five primary goals in the Department's strategic plan. The wide range of services provided by our agencies – price and income support, farm credit assistance, risk management tools, and trade expansion and export promotion programs – are the bedrock for ensuring the economic health and vitality of American agriculture.

FFAS also plays an important role in protecting and enhancing the Nation's natural resource base and environment, another of the Department's strategic goals, by providing critical support for improved management of private lands.

The 2006 President's budget supports continuation of these diverse activities and ensures our continued efforts on behalf of America's agricultural producers. Although the budget does contain proposals for savings in both discretionary and mandatory programs as part of government-wide efforts to reduce the deficit, it fulfills our priorities of promoting and enhancing the economic opportunities of our farmers and ranchers and for protecting the environment.

Farm Service Agency

The Farm Service Agency (FSA) is our lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP). Because FSA is the prime delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

The 2002 Farm Bill required FSA to undertake the massive task of implementing a complex set of new farm programs within a short time period, and the agency met that challenge successfully and with distinction. With the major workload associated with Farm Bill implementation having been completed, FSA recently has faced other program implementation challenges that have required the full commitment of agency resources. Last October, the President signed a disaster assistance bill that included more than a dozen programs and $2.9 billion for farmers and ranchers who were affected by drought and other weather-related problems in 2003 and 2004. FSA also has implemented an emergency relief program, supported with $600 million of section 32 funds, for Florida's citrus, nursery, and vegetable growers who were affected by three hurricanes last year.

Also enacted last October was legislation containing the so-called tobacco buy-out provisions that has major consequences for the Federal tobacco program. Under those provisions, transition payments will be made to tobacco quota holders and producers, ending all elements of the Federal tobacco price support program effective with the 2005 crop. FSA is now actively engaged in the steps needed to implement the legislation as quickly and efficiently as possible. Sign-up for the transition payment program will begin on March 14th.

The 2006 budget is designed to ensure the agency's efforts can move forward. It provides a total program level for FSA salaries and expenses of nearly $1.4 billion, a net increase of $70 million above 2005. The requested level will support a ceiling of about 5,500 Federal staff years and 10,300 non-Federal staff years. Staff levels have been reallocated among FSA's program activities to reflect the decreased workload associated with farm income program support and other areas, while accommodating rising workload needs for conservation and other programs. Permanent full time non-Federal county staff years are estimated to remain unchanged from this year's level, while temporary staff years are reduced with the completion of disaster assistance activities.

FSA is taking other actions designed to improve their services on behalf of America's producers. Among the most important of these are information technology (IT) improvements, including the adoption of web-based applications that allow farmers to sign up for programs, as well as receive payments, on line. This reduces the paperwork burden significantly and provides for more timely receipt of payments. By 2006, FSA expects all of its major programs will be web-based and available on-line.

FSA also continues to implement Geospatial Information Systems (GIS) and Global Positioning System technology that will provide increasingly better services in the future and should result in significant long-term savings. Funding for FSA IT modernization and related GIS initiatives has been provided in the Common Computer Environment account managed by the Department's Chief Information Officer.

Finally, FSA is making considerable progress in reaching out to its small farm and minority constituency base. In January, final guidelines were implemented that provide reforms to ensure fair representation for socially disadvantaged farmers and ranchers in county committee elections. This has been complemented by expanded communication and outreach activities to increase the number of minority and women nominees in the election process.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through CCC, a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds most of the export programs administered by the Foreign Agricultural Service.

In 2004, as a result of strong prices and a healthy farm economy, CCC net expenditures declined 39 percent below the previous year to $10.6 billion. For 2005 and 2006, CCC outlays are expected to increase significantly due to recent large crops that have contributed to growing supplies and weakened prices. CCC outlays are now projected to reach $24.1 billion in 2005 and then decline to $19.8 billion in 2006.

The President's budget includes a number of proposals to reduce the level of farm spending consistent with the government-wide goal of reducing the Federal deficit. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings over the next 10 years. The proposals, which are spread across the entire agricultural production sector, include reducing commodity payments across the board by 5 percent; basing marketing loan benefits on historical production; tightening payment limits; lowering dairy program costs while extending the Milk Income Loss Contract program for 2 years; and reinstituting a 1.2 percent marketing assessment on sugar processors.

These proposals are expected to save $587 million in 2006 and $5.7 billion over 10 years. The majority of the savings is achieved through the across-the-board reduction in program payments.

The budget also proposes to limit the CCC bioenergy incentive program to $60 million, similar to the limitation of $100 million that applies to the 2005 program. An assessment of this program has found that additional incentives for ethanol are less critical than other Federal assistance, including tax credits and production mandates and that greater emphasis should be placed on incentives for biodiesel production rather than ethanol.

Conservation Programs

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by CCC and administered by FSA, is the Department's largest conservation/environmental program. The Farm Bill extended CRP enrollment authority through 2007 and increased the enrollment cap by 2.8 million acres to a total of 39.2 million acres.

As of the end of December, CRP enrollment totalled 34.7 million acres. Another 1.2 million acres were accepted in the 29th general signup in 2004 and will be enrolled once contracts are finalized. Once that step is completed, the CRP will have reached more than 90 percent of the total acreage authorized in the Farm Bill.

Our current baseline assumptions are that CRP acreage will increase gradually to 39.2 million acres by 2008 and remain at that level through 2015.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2006, 70 percent of direct farm ownership loans are reserved for beginning farmers and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2006 budget includes funding for about $937 million in direct loans and $2.9 billion in guarantees. We believe these proposed loan levels will be sufficient to meet demand in 2006.

The 2006 budget also maintains funding of $2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication loan program, the budget requests $60 million, a reduction of $40 million from 2005. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fund fully those eradication programs operating in 2006. For emergency disaster loans, the budget requests $25 million. About $175 million is currently available for use in 2005, and a portion of that is likely to carry over into 2006. The combined request and anticipated carryover are expected to provide sufficient credit in 2006 to producers whose farming operations have been damaged by natural disasters.

Risk Management Agency

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It provides risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2004, the crop insurance program provided about $46 billion in protection on over 221 million acres, which is about 3 million acres more than were insured in 2003. Our current projection is that indemnity payments to producers on their 2004 crops will be about $3.5 billion which is about $300 million less than in 2003. Our current projection for 2006 shows a modest decrease in the value of protection. This projection is based on the Department's latest estimates of planted acreage and expected declines in market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2004.

The 2006 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase.

Despite the successes of the crop insurance program, more can be done to improve its effectiveness. One of the overarching goals of the crop insurance program has been the reduction or elimination of *ad hoc* disaster assistance. However, in recent years Congress has passed four disaster bills covering six crop years and costing the Government about $10 billion. Therefore, the budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection provided at the catastrophic level.

Additionally, participants in the Federal crop insurance program would contribute to the President's deficit program. The budget includes several proposals that would reduce subsidies paid to producers and approved insurance providers. In total, these changes are expected to save about $140 million annually beginning in 2007.

In addition, the budget includes a general provision that would provide $3.6 million in mandatory funds to continue data warehousing and data mining activities authorized in the Agricultural Risk Protection Act of 2000 (ARPA). ARPA provided $23 million in mandatory funds for a variety of purposes, including data mining; however, that funding expires in 2005. Data mining is an instrumental part of the Department's efforts to combat fraud, waste, and abuse in the crop insurance program. In its first year of operation, data mining is estimated to have prevented the payment of about $94 million in potentially fraudulent claims and assisted in the identification and recovery of about $35 million in claims that should not have been paid.

Salaries and Expenses

For salaries and expenses of the Risk Management Agency (RMA), $88 million in discretionary spending is proposed, an increase of $17 million from the 2005 level of about $71 million. This net increase includes additional funding for IT, increased staff years to improve monitoring of the insurance companies, and pay costs.

RMA has an aging IT system; the last major overhaul occurred about 10 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about $14 billion in protection. In 2004, protection was offered through 20 plans of insurance covering 362 crops, plus livestock and aquaculture, and providing over $46 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance which offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining, and other anti-fraud, waste, and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times and increases the risk of data errors.

The development of the new IT system will result in some additional up-front costs to the Government because we will be required to finance both the developmental costs as well as the increasingly expensive maintenance costs of the legacy system. However, once the new system is operational, the legacy system will be eliminated, and a substantial reduction in maintenance costs is projected.

Finally, I would note that the budget for RMA includes a request for 17 additional staff years. This increase will provide RMA with the additional resources necessary to monitor the financial and operational condition of the companies participating in the crop insurance program. In 2002, American Growers', the Nation's largest crop insurance company, failed. RMA, in concert with the Nebraska Department of Insurance, did a tremendous job of ensuring that both the producers' and the Government's interests were protected, indemnities paid, and policies transferred to other insurance providers. The additional staffing will help to ensure that a similar failure does not occur in the future.

Foreign Agricultural Service

I would now like to turn to the international programs and activities of the FFAS mission area. As Secretary Johanns highlighted in his recent testimony before the

Committee, expanding trade is critically important for the economic health and prosperity of American agriculture. Expanding international market opportunities and promoting trade are among the most important means the Department has to enhance economic opportunities for our farmers and ranchers.

We have made solid progress during the past year in our market expansion activities. Central to these efforts is the Framework Agreement on agriculture that was reached last July by Members of the World Trade Organization (WTO) as part of the current round of multilateral trade negotiations. The agreement incorporates key U.S. objectives for the negotiations and provides strong principles for further liberalization of agricultural trade. Much work remains to be done to translate those principles into actual reform commitments, however, and we are working very diligently to achieve consensus among WTO Members on as many areas as possible by this summer. This should pave the way for a successful WTO Ministerial meeting next December in Hong Kong.

Regional and bilateral trade agreements provide another important avenue for opening new markets, and we continue to participate in the ambitious agenda that has been established for the negotiation of such agreements. During the past year, agreements were concluded with Australia, Morocco, Bahrain, five Central American countries, and the Dominican Republic. Negotiations are continuing with Panama, Thailand, three Andean countries, the five members of the Southern African Customs Union, the United Arab Emirates, Oman, and 34 countries that will comprise the Free Trade Area of the Americas.

Our efforts to maintain and expand market access are not limited to the negotiation of new agreements, however. Trade agreement monitoring and compliance activities are vital if we are to protect U.S. trade rights.

During the past year, among our highest priorities has been our work to recover access to markets for U.S. beef that were closed due to the December 2003 discovery of one case of bovine spongiform encephalopathy (BSE) in the United States. To date, we have recovered markets worth $1.2 billion, based on 2003 values. The current focus of our efforts is restoring access to the Japanese market, and we are committed to reaching a resolution of this matter as soon as possible. In October, the United States and Japan reached agreements on the terms by which trade in U.S. beef would resume. Since that time, U.S. experts have traveled to Japan to provide additional technical explanations. Based on the progress we have made, we expect the October agreement to be implemented in the near future, which will allow trade with Japan to resume.

Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is at the forefront of our efforts to expand and preserve overseas markets. Through its network of 78 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the goal of expanding overseas market opportunities.

As the Committee may be aware, FAS is currently undergoing an extensive review of its activities, organization, and operations. Many factors have prompted this assessment, including the changing nature of the global agricultural trade and trade-related issues; the need for greater efficiency in the delivery of services to the public; and budgetary constraints stemming in large part from significantly increased overseas operating costs. Recent declines in the value of the dollar relative to other currencies, coupled with local wage and price increases at overseas posts, have created major challenges in managing the agency's overseas presence.

FAS has already taken steps to respond to these challenges. Earlier this year, the agency exercised buy-out and early-out authorities, approved by the Office of Personnel Management, to reduce staff levels at headquarters. In addition, its travel budget has been reduced by 50 percent, and promotional activities carried out by FAS overseas staff and other international programs have been sharply curtailed.

Even with the actions that have been taken thus far and further steps that are likely to result from the current organizational review, FAS will continue to face fiscal hurdles as it strives to maintain the services it provides to American agriculture. These factors were taken into account during development of the 2006 budget, with particular attention given to maintaining FAS' overseas presence so the agency can continue to represent and advocate for U.S. agricultural interests on a global basis.

The budget provides a program level of $152 million for FAS activities in 2006, an increase of just over $11 million above 2005. This includes funding to meet higher operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services that State provides at overseas posts.

Funding also is provided for FAS' contribution to the Capital Security Cost Sharing program. Under that program, which is being implemented this year, agencies with an overseas presence in U.S. diplomatic facilities will contribute a proportionate share of the costs of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

The budget also requests funding to support an FAS presence in the new embassy in Baghdad, Iraq, as well as funding for increased agency personnel costs.

Export Promotion and Market Development Programs

FAS administers the Department's export promotion and market development programs which play an important role in our efforts to assist American producers and exporters take advantage of new market opportunities overseas.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. Those guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available with CCC guarantees. For 2006, the budget projects a program level of $4.4 billion for CCC export credit guarantees.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Program, the budget provides funding of $173 million. This is somewhat below the 2005 current estimate reflecting a proposal to limit the Market Access Program to $125 million. That proposal is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

The budget also includes $52 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program.

International Food Assistance

The United States continues to be the world's leader in global food aid efforts, providing over one-half of world food assistance. In support of our commitment to help alleviate hunger and malnutrition in developing countries, the supplemental appropriations package submitted by the President on February 14th includes a request for $150 million to support additional P.L. 480 Title II food donations to meet critical needs in Sudan and other emergency situations. It also requests funding for recovery and reconstruction activities in tsunami-affected countries and allows a portion of those funds to cover the cost of P.L. 480 Title II commodities used to respond after the tsunami.

For 2006, the budget continues our support for these efforts by providing a program level of approximately $1.8 billion for U.S. foreign food assistance activities, including $300 million that is being requested in the Foreign Operations Appropriations Bill.

The P.L. 480 programs remain the primary vehicle for providing U.S. foreign food assistance. The 2006 budget provides funding that would support a Title I credit and grant program level of $145 million. For Title II donations, funding is provided to support a program level of $964 million. These estimated program levels include unobligated funds carried over from previous years and projected reimbursements from the Maritime Administration for costs associated with meeting U.S. cargo preference requirements in prior years.

In the case of Title II, the level of appropriated funding requested has been reduced by $300 million below the level requested in recent annual budgets, and an equivalent level of funding is being requested in the Agency for International Development's (AID) International Disaster and Famine Assistance account to support emergency food assistance activities that will be administered separately by AID. This change is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget provides appropriated funding of $100 million, an increase of 15 percent above the 2005 enacted level. That funding will be supplemented by anticipated reimbursements from the Maritime Administration, and the total combined program level of $106 million is expected to support assistance for as many as 2.6 million women and children.

The budget also includes an estimated program level of $137 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries. The budget also assumes that donations of nonfat dry milk will continue under the authority of section 416(b) of the Agricultural Act of 1949. The total value of the commodity assistance and associated costs is projected to be $151 million.

Trade Adjustment Assistance

The budget includes $90 million for the Trade Adjustment Assistance (TAA) for Farmers Program, as authorized by the Trade Act of 2002. This program provides assistance to producers of raw agricultural commodities who have suffered lower prices due to import competition, and to fishermen who compete with imported aquaculture producers. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. In addition, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

During 2004, the first full year of implementation, 12 petitions for TAA assistance were approved. Commodities that were certified for assistance included blueberries, Pacific salmon, shrimp, catfish, and lychees. The total program costs for 2004 are estimated at $16 million.

The deadline for submission of petitions for 2005 TAA assistance closed on January 31st. Thus far, TAA assistance has been certified for Pacific salmon fishermen in two states, shrimpers in 6 states, and black olive producers in California. Additional petitions are currently under review, and decisions on their eligibility should be announced in the near future.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have. Thank you.